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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

2006 NOV 27 P 4:33

AZ CORP COMMISSION  
DOCUMENT CONTROL

JEFF HATCH-MILLER, Chairman  
WILLIAM A. MUNDELL  
MIKE GLEASON  
KRISTIN K. MAYES  
BARRY WONG

IN THE MATTER OF THE APPLICATION OF  
ARIZONA PUBLIC SERVICE COMPANY FOR A  
HEARING TO DETERMINE THE FAIR VALUE  
OF THE UTILITY PROPERTY OF THE  
COMPANY FOR RATEMAKING PURPOSES, TO  
FIX A JUST AND REASONABLE RATE OF  
RETURN THEREON, TO APPROVE RATE  
SCHEDULES DESIGNED TO DEVELOP SUCH  
RETURN, AND TO AMEND DECISION NO.  
67744.

DOCKET NO. E-01345A-05-0816

IN THE MATTER OF THE INQUIRY INTO THE  
FREQUENCY OF UNPLANNED OUTAGES  
DURING 2005 AT PALO VERDE NUCLEAR  
GENERATING STATION, THE CAUSES OF THE  
OUTAGES, THE PROCUREMENT OF  
REPLACEMENT POWER AND THE IMPACT OF  
THE OUTAGES ON ARIZONA PUBLIC  
SERVICE COMPANY'S CUSTOMERS.

DOCKET NO. E-01345A-05-0826

IN THE MATTER OF THE AUDIT OF THE FUEL  
AND PURCHASED POWER PRACTICES AND  
COSTS OF THE ARIZONA PUBLIC SERVICE  
COMPANY.

DOCKET NO. E-01345A-05-0827

**STAFF'S NOTICE OF FILING**

Staff of the Arizona Corporation Commission hereby provides notice of filing the Summary  
of the Testimony and Exhibits of James R. Dittmer, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 27<sup>th</sup> day of November, 2006.

Arizona Corporation Commission  
**DOCKETED**  
NOV 27 2006

DOCKETED BY	<i>AW</i>
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### Testimony Summary for James Dittmer

Mr. Dittmer has filed direct and surrebuttal testimony on behalf of the ACC Utilities Division Staff addressing revenue, expense and rate base adjustments. The majority of Staff Adjustments sponsored by Mr. Dittmer have been accepted by APS. Some adjustments have been accepted by APS in concept, though the actual exact revenue requirement value of some adjustments are dependent other determinations – such as cost of capital – to be made by this Commission. Mr. Dittmer also sponsors the Joint Accounting Schedules that reflect the cumulative recommendations of all Staff witnesses and that includes a reconciliation of Staff's base rate recommendation relative to the Company's original base rate request.

Set forth below are the adjustments being sponsored by Mr. Dittmer that remain "at issue" with APS, as well as a very brief description of the rationale underlying each adjustment.

- Staff is recommending that bark beetle costs deferred *prior to* the date of this Commission's order wherein it authorized APS to defer bark beetle remediation costs be disallowed. Staff did not, and does not, believe the stipulation in the last case intended for APS to be able to defer and later recover costs incurred *prior to* the effective date of the authorizing order.
- Staff is recommending that newly claimed Investment Tax Credits, not restricted as to rate treatment by Internal Revenue Code "normalization" requirements, be used as a rate base offset. These funds are undeniably "cost free" to APS, and accordingly, should be reflected as a rate base offset.
- Staff continues to oppose APS' proposal to collect in rates over a five-year period the "unfunded" projected pension benefit obligation. APS' pension cost proposal has never before been approved by any regulatory body, will result in intergenerational inequity among ratepayers, will result in at least a temporary double recovery of such "unfunded" balance, will do nothing to eliminate current cash flow concerns, and will eventually exacerbate APS' cash flow problems during the ten year period in which the funds are to be returned to ratepayers.
- Staff opposes that portion of the Company's proforma adjustment for Sundance non-fuel operations and maintenance expense that is based upon projected overhaul costs that will not be incurred for many years in the future – and certainly beyond the period of time that rates being established in this proceeding can reasonably be expected to remain in effect.
- Staff opposes inclusion of stock based incentive compensation in cost of service development that is based entirely upon the Company's achievement of financial goals with absolutely no consideration of customer-oriented goals.

- As a matter of regulatory policy, Staff opposes recovery of all lobbying costs, and further, recommends that in the future APS be ordered to record all lobbying costs below the net operating income line – consistent with guidelines set forth within the Uniform System of Accounts.

In its rebuttal filing, APS effectively abandoned its request for rate relief based upon an adjusted historic test year cost of service, and instead, for the first time essentially based the totality of its request upon forecasted financial metrics for 2007 and 2008. More specifically, APS argues in rebuttal and rejoinder testimony that to the extent this Commission adopts any of Staff, RUCO or other intervenors' "revenue requirement" positions or adjustments to the historic test year cost of service, that it should concurrently authorize an exact offsetting "attrition" adjustment to bring the level of rate relief being granted back to the level that APS supports in rejoinder testimony. Mr. Dittmer opposes the Company's belated request for an attrition adjustment. If an attrition adjustment is to be authorized, it should only occur after a utility clearly sets forth such a request in direct testimony so that all parties can adequately analyze through the discovery phase of the proceeding and address in direct testimony as necessary. No party has adequately reviewed the Company's forecast. Accordingly, setting rates on the Company's forecast, after the discovery phase of the proceeding has largely been completed, would be unfair to ratepayers in this proceeding and would result in very bad precedent for all future Arizona utility rate proceedings.